

MEMORANDUM

TO: Madelynn Brown
Department of Insurance

FROM: Larry Boress

SUBJECT: SUMMARY OF SMALL EMPLOYER COUNCIL MEETINGS & FOLLOW-UPS

DATE: September 25, 2002

INTRODUCTION

In June 2002, the Illinois Department of Insurance provided a contract to the Midwest Business Group on Health (MBGH) to conduct meetings of small employers, in different parts of Illinois, to respond to proposals from the Department aimed at reducing the number of uninsured workers.

This report is a summary of the discussions conducted at three Small Employer Council meetings in Peoria, Chicago and Quincy.

PARTICIPANTS

Invitations to attend the meetings were sent to employers who employed fewer than 100 workers. Prospective employers were identified by MBGH in cooperation with chambers of commerce in Chicago, Peoria and Quincy, the Management Association of Illinois, the Employers Association and the U.S. Chamber of Commerce. While the meetings were intended for 12-15 participants to allow for a full discussion of employers' views, some meetings drew up to 24 people. Participants ranged from having as few as three employees and as many as 120. Each meeting also included at least one insurance broker.

STRUCTURE OF MEETING

Each meeting, moderated by Larry Boress, MBGH, followed the same format:

- Introductions
- Overview of project

- Presentation of proposals to reduce the number of uninsured in Illinois
- Discussion of each proposal – pros and cons

PARTICIPANT VIEWS

Participants were asked to introduce themselves and to answer the following questions:

- How many employees do you have?
- Do they offer health insurance? If not, why not?
- Do they worry about their ability to continue to offer health insurance?
- Do they share costs with their employees?
- Do they cover dependents?
- Is freedom to choose physicians important in a health plan?
- How do they define “quality” in a health plan and doctor?

The responses were virtually the same in each meeting:

- Virtually all the employers offered some form of health insurance, with a number of 1-2 person firms on Public Aid.
- All were very concerned about the high premium increases and their ability to continue to offer health coverage for their employees.
- Most were committed to continue to find a way to offer the benefit in order to retain and attract employees.
- Most employers shared costs with employees, and a surprising number covered dependents as well.
- Freedom to choose doctors was important to all participants.
- “Quality” was defined primarily as service quality – the ability to get access to a doctor when you need one; timely referrals; size of premiums; timely payment of claims; satisfaction with doctor. There was little or no recognition that clinical quality was a problem or that it varied among providers.

OVERVIEW OF PROJECT

Madelynne Brown, DOI, provided an overview of the project, funded under a HRSA grant. The objective of the grant was to create proposals that the private market would adopt to enable small employers to be able to afford to offer health insurance to their workers. The Small Employer Advisory Councils were intended to give the State a view from the intended customers of the proposals.

PRESENTATION

Donna Novak, NovaRest Consulting, gave a presentation that included the following:

- Background on the development of health insurance
- Reasons why premium costs are rising
- A proposed small employer insurance product
- A proposed small employer purchasing pool
- A proposed small employer reinsurance pool

DISCUSSION

A discussion was held following the presentation of each proposal to obtain reaction to the concept, areas the employers liked, areas they didn't like, and suggested improvements or new ideas.

I. Small Employer Insurance Product

This product had the following elements:

- A high deductible plan
- Preventive services covered
- A network of contracted providers
- Some high-cost, low frequency services would not be covered.
- Premiums would be based on employee salary
- Employee contributions would be tax-deductible
- Limited drug formulary, focus on generics

Reactions

High deductible, with preventive services:

-The employers liked the high-deductible plan, including preventive services which would remove barriers to obtain needed care. Employers need to know more about the mandates that are and those that are not included in this product.

Network of providers:

-Most employers had no problem with having a limited network of doctors, but this varied with the location. In border communities, where the physicians and hospitals were in different states, there was a concern that access would be impeded if all of the limited number of physicians were not in the network.

Certain high-cost-low frequency procedures not covered:

-This was an area of concern for most employers for certain types of services. Employers generally wanted to include some behavioral health visits. The employers were split on whether to exclude all transplants, understanding the need to keep the product affordable, yet fearing the huge costs of such

procedures.

- There is a need to identify what is included in catastrophic coverage. there was confusion as to whether cardiac procedures were covered and other high cost procedures.

Premiums tied to employee salary:

-This received a lot of discussion. Some employers believe within a small firm a pay-related premium product would cause bad feelings as those in a higher salary level would have to pay more than others.

-Higher earners would question the value of promotions that increased their costs or leave the plan.

-However, if this feature was required in order to make the product affordable or to have no product at all, it was seen by most employers as acceptable.

-MAI surveyed its members and found that more small employers are basing premiums on income.

-It was suggested more graduated levels or caps on contributions would make this more acceptable.

Tax-deductible contributions:

-The tax benefits to employers were not well known or understood by participants. The concept of tax - deductible contributions was supported by all. More education is needed in this area.

Drug formulary

-Employers supported the limited formulary, as long as people would be educated about generics and their value and savings.

II. Small Employer Purchasing Pool & Re-insurance Pool

There were two pooling proposals: a small employer purchasing pool and a reinsurance pool for high cost cases.

The small employer purchasing pool was described as having the following elements:

- Limited to employers 2-50
- Employer contributes a minimum amount for coverage
- A certain percent of employees must participate
- An employer must commit to stay in the pool for at least 3 years
- There would be penalties for employers joining without prior coverage after initial open enrollment period

- Pools could be statewide or regional
- Possible state subsidies for pools

Reactions

All employers favored creation of purchasing pools that use the leverage of the group for lower premiums, administrative costs and better services.

Employer required contribution:

- The percent of the premium the employer is required to pay would determine who many businesses participated. There was no specific percent that was suggested. The coverage offered by the group would also impact decisions.

Reactions

State or regional pools for employers with 2-50 workers :

- They favored regional, rather than a statewide pool. It was suggested the pools be expanded from 2-50 to 2-100.
- It was suggested the State look at how Hawaii has been successful in forming pools.

3-Year commitment:

- This was a major point of concern. Unless a cap was placed on how high the premiums would go each year or some other incentive was found to stay in the pool, employers were very reluctant to commit to staying in a pool. Employers were concerned if one employer caused a large increase in the group that all would be penalized. It was also noted if the cost of the pool goes up dramatically after 3 years, you've not solved anything. It was also suggested that carriers be required to stay in the pool for the 3 years, so employers wouldn't be faced with changing carriers each year.

State subsidies:

- The participants favored the idea of the state providing subsidies for health coverage, though it was mentioned that the current financial status of the State would make this a future item.

Ideas

- It was suggested a reserve be created from part of each employer's premium to help hold down future increases of the pool.
- It was noted that some chambers, MAI and Illinois Manufacturers Association had created pools. The health insurance pools did not succeed, while an MAI workers comp trust was successful since it had a maximum premium.
- The Blues have had a pool for rural and small employers and some municipalities have formed pools.
- The brokers wanted to know if each pool would give one broker all the business or if there's a way for multiple brokers to participate and benefit.
- Using the re-insurance pools for transplants may make them attractive
- Employers saw the need to educate businesses that coming together will help individual companies over the long-run.
- It was suggested the pool be available to allow an employer to buy coverage for a major event.
- There was a suggestion that the reinsurance pool have a strong case management program linked to it to help hold down costs.

GENERAL

The employer participants had the following general comments and suggestions:

- The State should provide education for employers and employees about health insurance, tax deductibility of insurance, costs of benefits, benefit options, value of generics, quality variations, etc. to make them better purchasers and consumers. It was noted individuals don't see the actual costs of health care.
- There was a question as to whether the small employer product would work for very small (under 5) employee businesses.
- There should be a feature that rewards people who take care of themselves or participate in risk-reduction programs.
- KidCare, and now Family Care, should be more widely promoted as an option for low-income employees
- Rockford Health Council is developing a 3-tier health insurance model that offers premiums subsidy, required employer contribution and employee contribution that the State might duplicate.

- The State should investigate and promote consumer-driven health plans that limit the contribution an employer makes and allows employees to pay for benefits they want.
- It was mentioned that none of the proposals would impact the underlying problems in the health care system impacting the variations in clinical quality or inefficiencies.
- The State should offer or promote products and decision-making tools that help people self-manage their conditions and select procedures and give information on the quality of providers.
- It was suggested the State send the final proposals to a group of employers with less than 10 employees to see their level of interest. MBGH members could be asked to identify their suppliers who do not offer insurance.
- A meeting for carriers who serve the small employer market should be held to see their interest in offering the proposed products and other ideas they have.
- Test the proposals with a carrier and a few employers for 1-2 years.
- DOI could provide an expedited review of a small employer product that met the criteria favored by the employer participants and ask plans to test it out.
- Participants could be surveyed to determine their interest in the new products.

There were few employers who did not offer insurance at the meetings. For the vast majority of participants, the proposals were viewed as reduced benefit, low cost alternatives to their present coverage. The various features might be more attractive to employers who do not offer insurance currently. There has been some research showing that more people would take health insurance if more employers offer it.

NEXT STEPS

The contract has been extended to allow for additional meetings. MBGH was asked to develop a meeting in central Illinois for brokers who specialize in health care and have small employer clients. The meeting would be structured to ask what they see in the current small employer market; how to identify employers without insurance; and what ideas they have on increasing the number of uninsured.